

SERVICE DATE - FEBRUARY 18, 1997

SURFACE TRANSPORTATION BOARD

DECISION

STB EX PARTE NO. 290 (SUB-NO. 4)  
RAILROAD COST RECOVERY PROCEDURES-PRODUCTIVITY ADJUSTMENT

Decided: February 6, 1997

We tentatively adopt 1.050 (5.0% per year) as the measure of average growth in railroad productivity for the 1991-1995 (5-year) averaging period. The current value of 5.9% was developed for the 1990-1994 period.

Since 1989, the cost recovery procedures have required that the quarterly rail cost adjustment factor (RCAF) be adjusted for long-run changes in railroad productivity. The ICC Termination Act of 1995 continues this requirement (49 U.S.C. 10708, as revised). The long-run measure of productivity is computed using a 5-year moving geometric average.<sup>1</sup> The productivity index includes above-the-line special charges and railroad-related below-the-line special charges.<sup>2</sup>

Productivity growth for the year 1995 is 1.012 (a decrease of 4.5% from the prior year) based on changes in input and output levels from 1994. Incorporating the 1995 value with the values for the 1991-1994 period produces a geometric average productivity growth of 1.050 for the 5-year period 1991-1995, or 5.0% per year. This is 0.9% lower than the value developed for the 1990-1994 5-year period currently used. A detailed discussion of our calculations is contained in the Appendix to this decision.

Comments may be filed addressing any perceived data and computational errors in our calculation. Any party proposing a different estimate of productivity growth must, at the time it files comments, furnish the Board with detailed work papers and documentation underlying its calculations. The same information must be made available to other parties upon request.

ENVIRONMENTAL AND ENERGY CONSIDERATIONS

This decision will not significantly affect the quality of the human environment or the conservation of energy resources.

REGULATORY FLEXIBILITY ANALYSIS

Pursuant to U.S.C. 605(b), we conclude that our action in this proceeding will not have a significant economic impact on a substantial number of small entities. No new regulatory requirements are imposed directly or indirectly on such entities. The purpose of our action in this proceeding is to update the data used to measure railroad productivity changes. Reporting

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<sup>1</sup> Productivity Adjustment-Implementation, 9 I.C.C.2d 1072 (1993).

<sup>2</sup> Two railroad-related below-the-line special charges taken in 1995 involving the prepayment of debt on railroad property and equipment are included in the productivity calculation. One, by the Illinois Central Railroad, is for \$18,357,000 and the other, by the Soo Line Railroad, is for \$5,158,000.

requirements remain unchanged. The economic impact on small entities, if any, is not likely to be significant within the meaning of the Regulatory Flexibility Act.

AUTHORITY: 49 U.S.C. 10708, as revised.

It is ordered:

1. Comments are due by March 5, 1997.
2. An original and 15 copies must be filed with:

Office of the Secretary  
Case Control Branch  
Surface Transportation Board  
Washington, D.C. 20423

3. Comments must be served on all parties appearing on the current service list.

4. Unless a further order is issued postponing the effective date, the productivity adjustment will become effective 30 days after the date of service.

By the Board, Chairman Morgan and Vice Chairman Owen.

Vernon A. Williams  
Secretary

## APPENDIX

The following is a description of the methodology currently used to calculate the RCAF productivity adjustment.<sup>1</sup> The annual rate of productivity change is calculated by dividing an output index by an input index.

The input index uses constant dollar-adjusted expenses. The inputs (freight expenses, fixed charges, and contingent interest) are stated on a constant dollar basis using the most recent year as the base, and updating the base by the Series RCR Index published by AAR. Freight expenses, fixed charges, and contingent interest were obtained from railroad Annual Report (Form R-1) data. Because 1995 is the last year in the trend, no constant dollar adjustment was needed for that year. The constant dollar adjustment factor was calculated by dividing the 1995 RCR index value (252.9) by the RCR index values for 1991 and each subsequent year through 1994, inclusive. The calculation of the input indices and values used are shown in Table A.

The 1995 output index was developed from the costed waybill sample, a commonly used data source. The costed waybill sample excludes movements originating in Canada and Mexico and movements lacking sufficient information for the application of unit costs.

Using the costed waybill sample as a base, each movement is assigned to one of the 189 segments or categories used to develop the output index. Segmentation is based on three mileage blocks, seven car types, three weight brackets, and three shipment sizes. The output index is a composite of the year-to-year change in ton-miles for each of the 189 segments weighted by each segment's base-year share of total revenues.

The change in productivity is calculated by dividing the output index by the input index. The multi year average for the period 1991-1995 is calculated by taking a geometric average. The growth in productivity over the period 1991-1995 is 1.050 (5.0% per year). The input index, the output index, the annual productivity change, and the calculation of the 1991-1995 average are shown in Table B.

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<sup>1</sup> The development and application of the productivity adjustment is explained in the decision in this proceeding found at 5 I.C.C.2d 434.

Table A  
Calculation of Input Indices  
1991-1995

Year	Freight Expense Unadjusted (000's)	RCR Indices 1990-1995	Freight Expense Constant Dollars (000's) (1995 Levels)	Input Index Col (3) 1995/1991 etc.
	(1)	(2)	(3)	(4)
1990	25,760,159	220.6	29,531,932	xxxxxx
1991	29,096,584	230.2	31,965,795	1.099
1992	26,230,797	236.3	28,073,503	1.070
1993	25,331,287	238.1	26,905,848	1.062
1994	26,336,510	241.7	27,556,903	1.046
1995	28,818,781	252.9	28,818,781	1.000

Table B  
Comparison of Output, Input, and Productivity  
1991-1995

Year	Output Index	Input Index	Productivity Change Col(1)÷Col(2)
	(1)	(2)	(3)
1991	0.987	1.082	0.912
1992	1.045	0.878	1.190
1993	1.051	0.958	1.097
1994	1.084	1.024	1.058
1995	1.058	1.046	1.012